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CORPORATION FILE

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LEAF SUPERVISOR
RICHARD J. REYNOLDS

WINSTON-SALEM, N.C. January 19, 1943.

To the Stockholders of

R. J. REYNOLDS TOBACCO COMPANY:

There is enclosed herewith Financial Statement of your Company as at December 31, 1942.

Net earnings for the year 1942 amounted to $19,860,231.14, or $1.98 per share, compared with $23,239,386.78, or $2.32 per share for 1941. Provision has been made for depreciation, taxes and all other charges on the basis which the Company has consistently followed in former years. Federal and State taxes payable on income for 1942, including excess profits tax of $9,183,540.86, were $24,802,818.38, being $6,310,339.33 more than for the previous year. The total of said taxes was equivalent to $2.48 per share. Dividends amounting to $1.70 per share were paid in 1942.

Financial condition of the Company as set forth in the accompanying statement is presented on the same conservative basis as in former reports. The Company's valuable brands, trade-marks and good will are carried, as formerly, in the Financial Statement at the nominal sum of $1.00. Net current assets at December 31, 1942, were $143,713,810.04, an increase of $2,861,862.56 over the amount at the close of the previous year.

The Company's sales showed a large increase in 1942 over the year before, the volume for the first time in the history of the Company averaging more than a million dollars for each calendar day of the year. Net profit from operations for the year, before Federal and State taxes on income, was $2,793,067.48 above the corresponding profit in 1941, but, as mentioned above, the increase in said taxes was $6,310,339.33 over the prior year.

Higher prices prevailing for leaf tobacco in recent months are reflected in the item of inventories, which is shown in the Financial Statement at $172,802,711.77, an increase of $17,867,987.79 for the year. These inventories, as in former years, are valued at cost. Leaf tobacco included in the inventories is, of course, held and aged for several years preparatory to manufacture into the Company's products, and cost of any grade thereof for inventory and accounting purposes represents the average cost of all tobaccos of that grade on hand from all crops represented in the inventory—a basis of accounting long used by this Company as well as by the tobacco industry generally.

The notes payable in the amount of $18,750,000.00 are held by twelve of the Company's depositary banks, with whom in June 1942 there was arranged a five-year revolving or stand-by credit for $75,000,000.00. The interest rate on these current notes is 1½%. Recognizing that the growth in sales of the Company's products requires larger inventories, and in view of increasing costs of leaf tobacco, it was deemed advisable, particularly under war-time conditions, to have available for Company use additional funds while at the same time having the amount of such borrowed money limited to the actual current needs. The advantages of this assured credit for a five-year period are obvious.

During the year, on account of requirements for war uses of critical materials, it was necessary to make certain alterations in the packaging of some of the Company's products. Among other changes, metal containers heretofore used for PRINCE ALBERT Smoking Tobacco were replaced with cardboard containers, and the metal foil previously used as part of the wrapping of packages of CAMEL Cigarettes was replaced by a special type of highly protective paper. It has been gratifying to note the satisfactory condition in which the Company's products have been delivered to the consumers in these new packages and the general satisfaction with which they have been accepted.

Throughout the year the Company has been supplying increasing quantities of CAMEL Cigarettes and other of its products to the fighting forces and to workers in war plants and at the same time has been able to co-operate further in the war effort through the use of its machine shops in the production of war goods.

At the end of the year 1183 employees of the Company had left to enter the Armed Forces of the United States.

With those absent employees and their comrades in arms, and with the people of the Nation as a whole, the management of the Company shares the increased confidence in a victorious conclusion of the war and the hope for the early establishment of a just and enduring peace.

Jas. A. Gray,
President.